

VZCZCXRO7265
PP RUEHBI RUEHLMC
DE RUEHLM #0502/01 0870704
ZNR UUUUU ZZH
P 280704Z MAR 07
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC PRIORITY 5773
INFO RUCPDO/USDOC WASHDC
RUEHBJ/AMEMBASSY BEIJING 1228
RUEHNE/AMEMBASSY NEW DELHI 0803
RUEHKA/AMEMBASSY DHAKA 0004
RUEHIL/AMEMBASSY ISLAMABAD 6981
RUEHKT/AMEMBASSY KATHMANDU 5059
RUEHGO/AMEMBASSY RANGOON 0959
RUEHGP/AMEMBASSY SINGAPORE 5676
RUEHKP/AMCONSUL KARACHI 2174
RUEHCG/AMCONSUL CHENNAI 7556
RUEHBI/AMCONSUL MUMBAI 5258
RUEHIN/AIT TAIPEI 0059
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION
RHHMUNA/HQ USPACOM HONOLULU HI
RHEFDIA/DIA WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC

UNCLAS SECTION 01 OF 03 COLOMBO 000502

SIPDIS

SENSITIVE

SIPDIS

STATE FOR SCA/INS, EAP/CM, AND EEB/IFD/ODF

MCC FOR S GROFF, D NASSIRY AND E BURKE

PACOM FOR POLAD

E.O 12958: N/A

TAGS: [EAID](#) [ECON](#) [EINV](#) [ETRD](#) [PREL](#) [CE](#)

SUBJECT: SRI LANKA: PRESIDENT'S STATE VISIT TO CHINA FOCUSES ON PORT PROJECT AND OTHER INFRASTRUCTURE AID

REF: A) COLOMBO 250

B) 05 COLOMBO 2116

C) 06 COLOMBO 2086

D) 06 COLOMBO 431

11. (SBU) Summary and comment: Sri Lankan President Rajapaksa visited China February 26 - March 4 to commemorate the 50th anniversary of diplomatic relations between Sri Lanka and China. For Sri Lanka, key deliverables from the visit were economic, in the form of a Chinese government commitment to finance a major new port to be built by Chinese firms, plus agreements between Chinese and Sri Lankan firms for joint venture investments in Sri Lanka. The Rajapaksa government, the Sri Lanka Board of Investment, and the media portrayed the visit and the agreements it produced as an important success, but Sri Lanka actually got few new Chinese promises for big-ticket infrastructure. A notably missing outcome of the visit was any reference to the offshore oil exploration block that Sri Lanka has reserved for China. China's investment in the port project is part of its slow, patient strategy to gain strategic footholds in the Indian Ocean, a development India will monitor closely. End summary and comment.

COURTING AN INCREASINGLY IMPORTANT DONOR

12. (SBU) Sri Lankan President Mahinda Rajapaksa paid a state visit to China February 26 - March 4, during which he met with Chinese President Hu, Premier Wen, Foreign Minister Li, and other senior Chinese officials. The visit commemorated the 50th anniversary of diplomatic relations between Sri Lanka and China. Rajapaksa's delegation included at least sixteen ministers, Board of Investment and Tourism Board officials, and 72 private business people.

13. (SBU) For Sri Lanka, aside from the diplomatic anniversary, the

visit was an effort to drum up increased Chinese investment and development assistance. Since Sri Lanka's last head of state visit to China, in 2005, China had announced commitments to finance infrastructure projects in Sri Lanka worth over \$1 billion, making China potentially one of the largest development donors to Sri Lanka (Ref A). Not all of those commitments had come to fruition, however, so one of the goals of the Rajapaksa visit was to lock in some of promised help.

FOREIGN MINISTRY: VISIT DELIVERED INFRASTRUCTURE PROJECTS

14. (SBU) The Sri Lankan Ministry of Foreign Affairs considered the visit to be a diplomatic and economic success. Additional Secretary for Economic Affairs K. Amunagama told Econoff that President Rajapaksa's primary goal was to get Chinese support for his "Mahinda Chintana" vision of equal distribution of wealth around Sri Lanka (Ref B). President Hu had endorsed that vision, according to Amunagama, and had backed up his endorsement with a final commitment on a long-promised concessionary loan to finance a \$385 million container port and oil terminal in Rajapaksa's home district, Hambantota. Amunagama also noted that the four highest ranking officials in China had met with the Sri Lankan delegation and that the two countries had signed eight cooperative agreements in areas such as cultural, scientific, and educational exchanges. Paragraphs 12 and 13 list the MFA's goals for the visit and noteworthy passages of the communiqu from the visit.

15. (SBU) China also said it would explore funding for one other major infrastructure project. In 2005, China agreed to finance a 300 megawatt coal power plant at Norochcholai, in Puttalam District north of Colombo. During the recent visit, the two sides discussed

COLOMBO 00000502 002 OF 003

possible Chinese government funding for second and third phases of the Norochcholai project, each of which would add an additional 300 megawatts of output.

BOARD OF INVESTMENT: PRIVATE INVESTMENTS ALSO PLANNED

16. (SBU) Board of Investment Chairman Lakshman Watawala told Econoff that the visit had produced a number of MOUs for private Chinese investments in Sri Lankan firms. He said that the China Council for the Promotion of International Trade (CCPIT) had organized investment seminars in Beijing, Shanghai, and Guangzhou that had enabled Chinese and Sri Lankan companies to explore business opportunities.

17. (SBU) Watawala listed the following agreements as the most significant to come out of the visit:

- The Guangdong Bus Company will invest \$5 million in Micro Cars of Sri Lanka to manufacture 200-250 aluminum body buses per year, creating 200-300 new jobs.

- Chinese car manufacturer Chery will invest \$200 million in Sri Lankan importer David Peiris Motor Company to produce 500 Chery vehicles annually in Sri Lanka. Peiris already imports Chery cars.

- Dong Guan Ta Tun Electric Wire Co, a Taiwanese company with operations in mainland China, will invest \$200 million to produce electrical cables in Sri Lanka for export to India. Sri Lanka garment manufacturer Brandix Lanka will be a passive investor, adding 25% equity to the venture.

18. (SBU) A Brandix director, Aslam Omar, who participated in the official delegation to China, told Econoff that the electric cable venture had not in fact arisen from the visit. Omar described the trade seminars as "a total waste of time." He said the Chinese participants seemed to have no interest in the events, aside from the food. According to Omar, even President Rajapaksa had noticed this, and had commented to Omar, "no way are we getting what we want." A representative of Micro likewise confirmed that the bus deal had been sealed some time earlier and then announced again in the context of the visit.

¶9. (SBU) The government has portrayed the state visit and the agreements it produced as an important success. Rajapaksa surely is pleased to have gotten a firm Chinese commitment on his signature infrastructure project, the Hambantota port development worth nearly \$400 million dollars (Ref C and note in paragraph 10). Beyond that, Sri Lanka actually got few new Chinese promises for big-ticket infrastructure. Notable in its absence from the outcomes of the visit was any reference to the offshore oil exploration block that Sri Lanka has reserved for China (Ref D). China undoubtedly remains interested in the block, but the Sri Lankan Petroleum Minister's recent move to request a deposit of \$100 million from China to secure the block may have somewhat diminished China's enthusiasm.

¶10. (SBU) Note: The Hambantota project is controversial, as it involves creating a port and other related infrastructure in a corner of the country that currently has little economic activity. But that corner is Rajapaksa's home district, and he has been pushing various infrastructure projects -- a refinery, an international airport, a convention center, improved roads, etc. -- to turn Hambantota into a production center. The former Minister of

COLOMBO 00000502 003 OF 003

Ports and Aviation has accused Rajapaksa's brothers of interfering in Cabinet affairs as they separately lobbied on behalf of different Chinese companies pursuing the port contract. The President resolved the split by getting all to agree that both Chinese companies would have a role in the project. Indeed, ten days after the visit, the two Chinese construction firms signed a contract with the Sri Lanka Ports Authority on the deal. End note.

¶11. (SBU) China's focus on the Hambantota port is part of its ongoing strategy to build strategic footholds in South Asia. China's long term goal appears to be to lay the groundwork for potential access by Chinese naval vessels so China can better project power into the Indian Ocean and safeguard the growing volumes of energy supplies and other trade passing through or near Sri Lankan waters. End comment.

MFA GOALS AND COMMUNIQUE

¶12. (U) A Sri Lankan Foreign Ministry briefing book for members of the state visit's business delegation described Sri Lanka's objectives as follows:

- Celebration of 50 years of Diplomatic Relations
- Increase political, economic, cultural, educational, and technical cooperation
- Attract new investment
- Promote Sri Lanka as a tourist destination
- Promote Sri Lanka's exports - especially the non-traditional exports i.e. tea, gems and jewelry

¶13. (U) A joint communique released by China and Sri Lanka included the following notable points:

-Sri Lanka affirmed that the "Government of the People's Republic of China is the sole legal government representing the whole China and that Taiwan is an inalienable part of the Chinese territory."

-China would "continue to support Sri Lanka in its efforts to safeguard the country's sovereignty, national unity and territorial integrity against terrorist forces."

-China and Sri Lanka would fight "the three evil forces of terrorism, separatism and extremism and will step up consultation and coordinating on regional international counter terrorism action."

- The China-Sri Lanka Joint Committee on Trade and Economic Cooperation would encourage "Chinese trading companies to be more involved in the purchase of Sri Lankan items."

-China acknowledged "the desire and request of the Sri Lanka Government for infrastructure improvement and economic development" and "expressed readiness to give positive consideration to facilitating the financing of relevant projects."

-The two sides would increase Buddhist exchanges, and China would consider "the proposal of the Sri Lankan side on establishing an International Buddhist Zone in Sri Lanka..."

BLAKE